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Editorial

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In the first article of this issue, Armin Schwienbacher compares venture capital practices in Europe and the United States. On the basis of a survey conducted with venture capitalists, he compares practices using characteristics such as financial instruments used, early versus later stage financing, exit timing, and monitoring activity. He finds some significant differences in investment practices, particularly in the use of financial instruments (convertible securities), investment staging, and the intensity of monitoring, and concludes that European and American VC markets still exhibit fundamental differences even though indications of convergence have been identified in recent times.

In the second article, Günter Franke and Julia Hein look at the market for securitization of mezzanine (subordinated) loans to German medium-sized firms. They analyze the risk-return characteristics of ten recently issued CLOs on mezzanine debt using a simulation approach supported by a number of sensitivity and robustness checks. Their findings are particularly interesting in view of the recent credit market crisis.

Nadine Gatzert, Hato Schmeiser, and Stefan Schuckmann address default risk in the context of financial groups consisting of several entities with limited liability. They show that enterprise risk management should take into account limitations to the transferring of funds between entities in times of financial distress, making it useful to look at risk concentration factors as well as joint default probabilities between entities.

In this issue's perspective article, Roman Tancar and Jan Viebig give an overview on hedge fund replication. Hedge fund replication has received increasing attention

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because the return composition of traditional hedge funds consists mostly of risk premia (beta) rather than returns from timing and selection skills (alpha). Similar to index funds in traditional portfolio management, hedge fund replication products attempt to generate the performance derived from risk premia passively and therefore more cheaply. The authors explain different approaches for generating alternative beta and discuss the potential of replication products.

In the first book review of this issue, Rachel Berchtold reviews the book "The Fundamental Index—A Better Way to Invest" by Robert D. Arnott, Jason C. Hsu, and John M. West. In the second book review, David Oesch discusses the book "Theory of Asset Pricing" by George Pennacchi. The former book contributes to a current discussion in passive asset management on different weighting schemes of the index constituents and is targeted toward practitioners; the latter is an academic text on asset pricing and is intended for classroom use at graduate level.

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